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# The Role and Importance of Management Information Audit and Collection in Tax Administration in Egypt

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Noncompliance with tax laws takes a variety of forms. When a citizen is required to file a tax declaration he may fail to do so willfully or out of ignorance of the law. The measurement of noncompliance in this case is important in that it allows the tax office to identify the more important areas of the problem, in terms of the numbers of non-filers nationally and in terms of revenue lost annually, and to devise programs for reducing noncompliance in this area. Measurement programs may identify particular economic sectors of the taxpaying population. Non-filing of declarations by small merchants, farmers and casual laborers are some examples of these sectors of society and patterns of noncompliance which might be revealed by a thorough measurement programme.

One approach for estimating or measuring the extent of the problem of non-filing is to compare ficures representing the total of all incomes already reported on tax declarations with macro-economic data assembled by government economists and statisticians on national income during the same period. Such comparison can reveal for the country as a whole the "gap" between actual income and income reported by taxpayers. Although such approach is invaluable aids to tax administration, it suffers from several drawbacks:

First, accurate measurement requires readjustments between the concept of (income) used in national income statistics and the concept of (income) corresponding to the tax base of the country's income tax law. Second, national income statistics may lack the detailed breakdown of data according to economic sectors and income levels which will enable a tax office to identify the most serious areas of noncompliance. Lastly, national income statistics may not be accurate enough to provide a reliable basis for measuring noncompliance.

Other approaches to measuring noncompliance may play an important role, if only to supplement and validate the results of studies based on national income statistics. A comprehensive measurement project may be undertaken by a research team to prepare empirical studies of income tax compliance proceeding either by intensive audit of a sample of all income tax returns, or by a comparison of income estimates with income reported for tax purposes. But these studies have certain inherent limitations because the project would make an intensive study only of a particular area, it would not afford results that could be generalized nationally, however it might disclose the anatomy of noncompliance in greater detail than other approaches and that it might suggest a methodology that could be used by others to give definitive answers as to the degree of noncompliance of a certain sector-of-income of a small block of income-tax universe. Results obtained would be checked against the returns rendered and nonreporting of income would be translated into noncompliance with tax obligations. Expanded auditing effort by networth evidence may be an obvious remedy in this area.

Programming and planning of such servey or study may be directed by the Tax Commission's programming Committee headed by the Executive Director and a team of experts within the Planning and Research OFFICE of the Tax Department for finding and analyting the facts and evaluating the survey results.

To specify the data sources, the reliability of data may depend on the assistance of the Bureau of the census and Statistics and the Statitstical Center of the the Universities and other organizations in each country.

Other kinds of data sources may be provided:

1) Yaching programmes: regularly checking information returns of most payers against tax returns of income recipients (Regular information-at-source systems)

2) Inheritance and estate tax returns provide valuable clues on income of decedents, heirs, attorneys and administrators.

3) Every state has a list of licensed doctors, druggists, dentists, registered nurses, osteopaths, optometrists, licensed brokers, funeral directors and many others Ministry of Health or Ministry of Agriculture may have lists of every restaurant, dairy and farm whose cattlehave been examined. The Highway Department and Municipalities have the names of the contractors and transportation companies. Unemployment compensation Departments may have information worth checking.

4) Annual statements from recording companies of all dividends, interests and royalty payments and their distributive shares.

5) The bar associations have a list of most practising attorneys and accountants.

6) Turf clubs lists of names and addresses of owners and amounts of purses, lists of members by farmers' cooperatives and growers' associations . . .

7) Amounts of rental payment to the landlords of buildings can be checked with comparable data from property - tax data and records of the Register of Deeds.

The provisions of an income tax law must be designed to give the government the means for identifying those who should file tax returns and for providing income information. The income Tax witholding system is an important means for identifying the taxpayer and for providing information about his income.

The tax law may provide other means for identifying the taxpayer:-

1. A Master List of taxpayers. The law may provide that the tax administration shall prepare a list of all those who may be required to file returns of income and to maintain this list on a current basis. If no such return is received, the master list could be used to send a reminder to each delinquent taxpayer that a return has not been received and to ask for an explanation. Such a list could also serve as a basis for mailing return forms before the filing date as a filing stimulant.

Individuals and companies could be required to report such events as the dissolution of business, the formation of new business, the hiring of employees at salaries above the minimum return amount, and deaths.

The law should empower the administrator to investigate door to door and to study automobile registrations, telephone subscription lists, country club membership lists, foreign travel lists, real property registrations, import and export permit requests, bank accounts and any sources that might indicate a person has to be declaring his income.

2. The information return is a return by a person who has economic information about one or more potential taxpayers, and who has the obligation to report this information to the Tax Department reporting by third parties will provide a measure of compliance on the part of taxpayers. Those required to submit information returns will be the larger economic factors in the country such as banks, commercial business and government entities and those who may be aware of or participant in a transaction such as public recorders, registers, associations, holding companies and cooperatives.

3. The taxpayer identification number system requires that numbers be assigned to all taxpaying and information-reporting units, and only one set of numbers is used for all purposes (such as social benefits or certificates of identification) requiring that they be used in legal documents and to identify bank accounts and property registration. In a country without a data processing system the use of numbers without names involves dangers, because it can produce complicated errors.

4. Self-Identification Requirements: The law can require that the taxpayer identify himself and submit proof of tax compliance before the government and other institutions will act in his affairs, thus he may be compelled to prove that he has filed his tax returns as a condition for the issuance of a passport, for the transfer of real property, for the registration of an automobile and for the issuance of a business license or customs permit, and that any punishment for violation would be against the official who issues such documents.

As to the possible impact of such projects or means used for identifiying taxpayers upon relation between them and the tax administration, is that these excessive means would produce an oppressiveness that would inevitably become counterproductive. This possible applications should be exercised in limiting them to the areas in the economic life of the country which would likely catch the errant taxpayer, this may help to "humanize" tax administrators in the eyes of the taxpaying public and thereby gain a more acceptance from taxpayers.

The problems in obtaining information on non-filers from third parties are:

1. The secrecy of such information should weight the current social value of each country. The access of third party records must conform to the constitution and custom.
2. Certain information is considered privileged from forcible disclosure such as the information obtained by a doctor from his patient, a priest in a confession and a lawyer from his client is normally outside the flow of tax data.

3. Certain information is inefficient because of its limited character in the case of the absence of any comprehensive reporting system on property transactions, and large scale evasion may be enacted through under-statement of profits and property income.

4. Information returns often require listing of all transactions of a certain kinds (e.g. dividends) with other taxpayers during a certain period. This record cumulative information puts a heavier burden on the informants to keep reliable records of transactions over a particular period.

5. The burden of supplying information may be strongly resisted by the public especially from individuals rather than large business firms, and the task of enforcing compliance may add to the tax bureau's already heavy burden of enforcing taxpayer's obligations to file returns of their own taxable transactions.

6. Finally the task of actually utilizing the information obtained from third parties may greatly complicate the tax bureau's problem of handling evoluminous amounts of data.

Measuring the costs to informants and the tax bureau of filing out and processing the returns, these costs must be compared against the benefits to the tax bureau and society as a whole of the increase in compliance levels which the system may lead to. The fairness and efficiency of the administration of the income tax system depends on the acceptance of two kinds of responsibility the responsibility of the Department of Taxation to interpret and apply the law in a uniform and impartial manner, and the responsibility of the taxpayer to make an honest self-assessment each year of the tax payable by him under the law.

Most taxpayer accept this responsibility and pay the tax demanded by the law. Unfortunately, some seek to avoid or to evade payment of tax and special attention must be given to their returns. The tax compliance arm of the Tax Department in Egypt is made up of two investigative forces:

The first of these forces are the regular audit and verification staffs whose works is designed to ensure the uniform application of the law. Where there is evidence of evasion the case is referred to the Special Investigation staff. Its main responsibility is to investigate suspected cases of tax evasion for the purpose of obtaining evidence of any criminal offence that may have been committed and where such evidence is found, to prepare the case for prosecution in the courts according to the tax law. Special investigations work is usually generated from information indicating the possibility of an offence, which comes from various sources such as:

a) Taxation auditors and assessors as a result of their normal verification of income declared by taxpayers.

b) Special investigators investigating the affairs of other taxpayers.

c) Collection officers and other members of the Department as a result of the performance of their normal duties.

d) Planned programs through which an occupation or trade is surveyed, and information provided to audit staff or investigators for verification by cross-checking through taxpayer's records and returns. Such programmes are undertaken in all categories of taxpayers in all areas of the country are surveyed from time to time.

e) Newspaper reports, public records, observation of styles of living or any unusual circumstances which attract attention.

f) Informers All communications received from informers are dealt with in the strictest confidence. Information so received is used or verified in the same manner as any other tax evasion lead. There are situtations when, it is necessary to obtain statements of assets and liabilities (net worth) from a taxpayer so that an adequate review of his taxp position be made. Some of the factors considered to warrant obtaining such statements are as follows:

a) Returns have not been filed, or records are not non-existent or inadequate.
b) A tax fraud offence is indicated.
c) Reported income is inconsistent with individuals standard of living.
d) Information indicates the individual may have access to unreported income from illegal activities.

Under the provisions of the tax law, an investigator may seize and remove available records and documents from a taxpayer's premises. Investigators who have been authorized to seize records under this law have been issued a special authorization signed by the Minister.

Voluntary Disclosures: It is the policy of the Tax Department to encourage voluntary disclosures. Any person who has failed to file a return required under the tax law, or who has filed false returns and subsequently makes a voluntary disclosure pertaining to those returns that is as complete as can reasonably be expected in the circumstances, will be permitted to settle his liability by paying the tax and interest due according to the law. This does not waive late filing penalties, late remittance penalties, nor interest for late payment. However, a voluntary disclosure will be subjected to verification.

Publicity: The Tax Department believes that publicity in all news media on the cases taken to court provides a means of obtaining increased compliance with the law through the deterrent effect of such publicity on taxpayers who might be tempted to indulge in tax evasion and through the probable incentive on other tax evadors to make a clean breast of their offences.

The Department considers that it has a duty to the taxpaying public to inform them of the operations and results of its programme directed at searching out and prosecuting tax evadors. Accordingly statistics of prosecutions, fines, prison terms and recoveries will be published periodically.

Making Tax Information Available:

The publication of basic tax information would be useful primarily to the tax practitioner. This information consists of the texts of laws, decrees and regulations, the rulings of the tax administration and the report of decisions in tax matters made by special tax tribunals and by the general courts. A different type of information must be specially provided to the taxpayer. In most cases, the actual text of the complete tax law would serve only to confuse him because even a well educated taxpayer would find it difficult to discover the provisions applicable to his situation, and if he did, he might not understand them. Therefore, the law should permit the tax administrator to issue releases to the press, to publish and broadcast announcements, and to

distribute pamphlets that contain material specially prepared for taxpayers. This material, written in clear language and printed in a legible format, may be posted on public display at banks, post offices, stores, police stations and any other places where it will come to the attention of the public. Furthermore, tax declaration forms should be accompanied by instructions that will enable the average person to complete them, that is the requirements of the substantive law and the procedure for filing and payment should be clearly explained. The information should also describe briefly the penalties for noncompliance and fraud and the powers of the government to comple compliance and to push tax offenses.

Whenever the government takes some action with respect to a taxpayer, it should unless it is dealing with a professional representative, make available to the taxpayer, in the form of a phamplet or letter, an outline of the basis for its action and the rights of the taxpayer at that stage of the proceeding.

The taxpayer should be advised in simple language how he should proceed in the event that he disagrees with the government's action, whom he must see, where that person may be found, and how soon he must proceed. If the taxpayer must use some particular form, a copy of the form should be delivered.

Tax systems in Egypt may still be faced with the problem of how to deal with the small income taxpayers and the hard-to-taxpayers who do not keep adequate books of account. One solution is that of giving up the iidea of assessing the actual income and replacing it by the taxation of an estimated income.

We recommend that the use of estimating methods of the taxable income should be stric.ly limited by statute to those taxpayers such as small business who definitely cannot be expected to keep books of accounts and in our own opinion, the Revenue is not legally entitled to lay down rules for estimation of taxable income of groups of taxpayers on the basis of an artificial percentage of their turnover or their expenses, unless such rulers have been expressly provided by statute or the Finance Minister has been empowered, as in the Egyptian tax system, to issue rules for the estimation of the taxable income of some groups of taxpayers.

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